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SUBJECT: UAE's RAS AL KHAIMAH: OPEN FOR BUSINESS, BUT STRUGGLING TO GROW

REF: 09 DUBAI 447

CLASSIFIED BY: Justin Siberell, Consul General; REASON: 1.4(B), (D)

1. (C) SUMMARY: Ras Al-Khaimah's (RAK) effort to grow its economy by offering incentives to international investors has attracted primarily small-scale traders, including from Iran, and thereby drawn scrutiny from UAE federal authorities concerned about illicit Iranian activity in the country. On a recent visit to the Emirate by Consulate Dubai officers, RAK authorities insisted adherence to UAE and international export control measures to control illicit trade and denied strenuously facilitation of illicit Iranian trade or the notorious arms trading Bout brothers, as alleged in reports circulated in Washington, D.C. by lobbyists employed by a deposed, former Crown Prince of RAK (ref a). The Head of RAK Customs has requested USG training to build local Customs capacity. DHS/ICE and regional EXBS officers followed up with RAK's request in early February. END SUMMARY.

RAK AIMS TO INCREASE PROFILE IN UAE AND BEYOND

2. (SBU) In a December 23 meeting, H.H. Sheikh Faisal Bin Saqr Al Qassimi, Chairman of RAK's Free Trade Zone and son of the Ruler told Consul General and CG Dubai Econoff that RAK is working hard to carve out a niche within the UAE economy, long dominated by neighboring emirates Abu Dhabi and Dubai. With a total population of 300,000, of which 50 percent are Emirati nationals (highest concentration in the UAE according to RAK Government Officials), and located at the northern edge of the UAE facing the Persian Gulf, RAK's economy has traditionally been driven by industrial activity that exploits the limestone-rich Al Hajar mountains separating RAK from Oman. Stones from RAK are exported throughout the Gulf as foundation for off-shore developments such as Dubai's Palm Islands. Other stone-related industries also prosper in RAK -- RAK Ceramics is the world's largest ceramics company; while six cement plants are currently in operation in the emirate.

3. (C) But RAK aspires to more than producing rock and cement. RAK's leaders chafe at their traditional dependence upon Abu Dhabi and believe that the Emirate's northern location, just beyond the Straits of Hormuz, offers advantages for traders and merchants heretofore unexploited. Sheikh Faisal said that RAK has had to seek comparative advantage in order to compete with Dubai and Abu Dhabi and does so by offering investors the "fastest and most cost effective platform" to set up a business in the UAE. He said it takes just three days to register a company in the RAK Free Trade Zone, which compares favorably to longer wait times in Dubai and Abu Dhabi. Costs associated with establishing a business in RAK

(registration, office space, housing, etc.) are estimated to be 50 percent less than Dubai and Abu Dhabi. As a result, he said, RAK has seen a large rise in small company registrations, in particular first-time foreign company registrants to the UAE. Foreign investors are attracted, in particular, by guarantees of 100 percent ownership of their companies, permanent "tax holidays", and a fast and easy path to obtain coveted UAE residence visas for staff. Sheikh Faisal conceded that many new RAK registrants view RAK as simply a low-cost "back door" to doing business in Dubai and Abu Dhabi, and the Emirate is therefore developing strategies to orient such companies towards doing business locally. A failure to do so, he said, would feed opposition among traditionalist RAK citizens who already oppose the government's aggressive business-oriented strategy.

INDIAN COMPANIES LEAD IN FREE ZONE, IRANIANS NO LONGER WELCOME

14. (C) Oussama El Omari, CEO of the RAK Free Trade Zone told CG and Econoff that at the end of 2009, seven thousand companies had registered in RAK's Free Trade Zone. Indian companies comprise the

single largest component, mostly small traders and merchants. Meanwhile, Iranian investment in RAK had declined significantly in the last year. He revealed that the UAE Federal Government's increased scrutiny of all new Iranian investors and the overall sensitivity to possible illicit Iranian activities has led to the decline. Omari said that even existing Iranian business owners are finding it difficult to operate in RAK because of increased scrutiny from federal authorities, which is a significant change from RAK's previously aggressive courting of Iranian business. According to El Omari, to date, 162 U.S. based companies have registered in RAK's Free Trade Zone. (Note: Commerce attachC) has not been able to confirm this figure. End Note.) El Omari noted that RAK authorities would like to see more U.S. companies established in the Emirate, especially since the slow down in Iranian investments has left a noticeable gap in foreign direct investment.

MINIMAL CONTAINER HANDLING A LIMITING FACTOR

15. (C) Sheikh Faisal noted that RAK's lack of a robust container handling capability at its key Saqr port was limiting growth potential. He said that while a major port operation remained a long-term objective for RAK, the relative proximity of Dubai's world class container port at Jebel Ali made it hard to justify significant expenditure on port activities. Additionally, RAK would need to attract new manufacturing to generate the additional container business to make an expanded port viable. Unfortunately RAK does not have major projects in the short and medium-term to attract large international firms that would require a robust container business. Saqr port, which serves primarily as a bulk cargo facility to move RAK's stone and cement exports, currently handles approximately just three to four thousand containers a year compared to over 11 million in Dubai's Jebel Ali port. Dr. Khater Massaad, CEO of RAK Ceramics, told CG and Econoff that RAK Ceramics, the largest ceramics producer in the world, does not utilize RAK's major port for the 30 to 40 thousand containers it ships per year. Dubai's Jebel Ali, he said, offers superior handling service and available routes across RAK Ceramics' export markets.

RAK CUSTOMS AUTHORITY LACKS RESOURCES

¶6. (C) Mohammed A. Al Mehrezi, Director General of RAK Port and Customs Department told CG and Econoff that although his Department lacks resources, in particular adequate levels of trained Customs inspectors and other personnel, RAK Customs is effectively upholding strict security and export controls as outlined by UAE federal regulations. When questioned whether sufficient control was being exercised over RAK's Free Zone and dhow ports to ensure illicit items were not transiting the Emirate, in particular to Iran, Mehrezi asserted that RAK's ports were more tightly controlled than Dubai. "At least we have a fence around our ports" he said, making reference to the curb side (and unfenced) dhow wharfages in both Dubai and Sharjah.

¶7. (C) Mehrezi explained that RAK authorities have been unable to retain significant numbers of skilled customs personnel due to wage disparities between individual emirates of the UAE and the UAE federal government. Mehrezi said that a RAK customs official could quadruple his salary by moving to Abu Dhabi or Dubai to do the same job. He said that the poorer emirate of RAK does not have the resources to compete with higher salaries elsewhere and is therefore unable to maintain staff continuity. In 2009, over 70 RAK Customs officers out of a total of 250 resigned in order to take higher paying jobs in Dubai and Abu Dhabi. (Comment: In late 2009, UAE federal salaries were increased by 70 percent, a move

seen as bringing the federal salary structure into line with that of Abu Dhabi emirate. The raise only exacerbated the wage disparity problem in the far flung emirates like RAK. End Comment.) Mehrezi lamented that while RAK has invested in costly and time consuming training for customs officials, Dubai and Abu Dhabi Customs Authorities have been poaching their staff as a result of being able to offer higher pay packages. He said that it has become increasingly difficult to operate as result of this personnel attrition, and made a case for federalizing Customs workers, a move that would lead to comparable skills and pay across the UAE. (Comment: While a federalization of customs responsibilities has long been rumored, Abu Dhabi and Dubai customs authorities exercise significant independence and seem to have little interest in unification. End Comment.)

¶8. (C) Mehrezi was open to CG's proposal of assistance in arranging training for RAK Customs personnel. Mehrezi followed up the December 23 conversation with a request in early January to establish a training program. In response, Dubai-based DHS/ICE attachC) and Muscat-based EXBS officer are meeting Mehrezi in the first week of February to discuss developing a cooperative training program. DHS and EXBS are already working closely with Dubai Customs on a variety of training programs. Expanding these programs to RAK will give us greater visibility on the flow of goods into and out of RAK, helping either to substantiate or refute claims made by a former (deposed) RAK Crown Prince that RAK has emerged as a center for illicit Iran trade in the UAE (reftel).

RAK CERAMICS: BOOMING, BUT NOTHING TO DO WITH MISSILES

¶9. (C) Consulate officers visited the offices of RAK Ceramics, established in 1989 and now the largest producer of ceramics in the world. The company was founded by current RAK Crown Prince Sheikh Saud bin Saqr al Qassimi and is effectively run and controlled by Dr. Khater Massaad, a Lebanese-origin Swiss citizen. RAK Ceramics exports ceramic products to 135 countries, including the United States. Factories are operating in Iran, China and Sudan. When asked by CG whether there was any truth in allegations that RAK Ceramics' Iran facility may be involved in producing high-tech ceramics for Iran's missile programs, as alleged by the former Crown Prince (reftel), Massad became visibly angry and said, "we make tiles, toilets and sinks and don't want any trouble...the idea that I would have anything to do with Iran and weapons is totally false and outrageous." When asked why the former Crown Prince might allege such things in his folio about RAK circulated on Capitol Hill, Massad said he couldn't understand why he would denigrate RAK's most successful company that brings more money into the Emirate than any other business. He said that the former Crown Prince "never supported RAK Ceramics" during his time as Deputy Ruler, even denying RAK Ceramics the energy it required to grow operations. Massad believed the former Crown Prince is hoping either to be returned to RAK and cut in on government-related revenue, or bought off by Abu Dhabi to stop making his (false) claims. Massad said he planned a counter-campaign to clear his name, using a "lobbyist" in Washington (nfi).

NO BITE ON THE BOUT BROTHERS

¶10. (C) CG raised the allegation of RAK facilitation of the activities of the arms-trading brothers Victor and Sergei Bout, another among the claims made in the former Crown Prince's folio, with Sheikh Faisal and Oussama Al Omari of the RAK Free Zone as well as with Khatar Massad of RAK Ceramics. All either denied knowledge of the brothers entirely, or said they were unaware of any information that would corroborate the former Crown Prince's allegations, including that the Bout brothers continue to maintain

interest in a diamond business based in the RAK Free Zone. Sheikh Faisal offered to direct access to the diamond facility if desired, and asked for any specific information of concern to the USG about RAK, which he pledged would be investigated and acted upon.

COMMENT

¶11. (C) This recent visit to Ras al Khaimah was intended to build Consulate Dubai's understanding of the nature of business activity ongoing in the emirate and to develop, where possible, relationships that will help us continue to build that knowledge. In that regard, developing a training relationship with RAK Customs provides a potentially valuable avenue for cooperation in an area where concerns have been raised about trade with Iran and lax export controls. RAK's strategy to take a larger piece of the economic pie in the UAE may appear on its face to be overly-ambitious and difficult to implement, but the poor, neglected emirate has little choice but to think big if it is to employ its growing youth population and wean itself from the limited, though reliable, hand outs traditionally provided by Abu Dhabi. END COMMENT
SIBERELL